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TELEGRAM

October 26, 2003

To: No Action Addressee
Action: Unknown
From: AMEMBASSY ABU DHABI (ABU DHABI 4748 - ROUTINE)
TAGS: ELAB, PREL, PHUM, PGOV, SOCI, CVIS
Captions: None
Subject: UAE AND OPIC -- PERFECT TOGETHER
Ref: None

UNCLAS ABU DHABI 04748

SIPDIS
CXABU:
ACTION: ECON
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DISSEMINATION: ECON
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APPROVED: CDA: RAALBRIGHT
DRAFTED: ECON: GARANA
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FM AMEMBASSY ABU DHABI
TO RUEHC/SECSTATE WASHDC 2197
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UNCLAS SECTION 01 OF 03 ABU DHABI 004748

SIPDIS

SENSITIVE

STATE FOR NEA/ARP, NEA/RA, DRL AND EB/CBA
STATE PASS OPIC/OPIC INTERNATIONAL POLICY DEPARTMENT FOR
VIRGINIA GREEN AND CONSTANCE SHINN
USDOC FOR 4530/ITA/MAC/ONE/DGUGLIELMI,
4520/ITA/MAC/ONE/CLOUSTAUNAU,
4500/ITA/MAC/DAS/WILLIAMSON,
3131/CS/OIO/ANESA

E.O. 12958: DECL NA
TAGS: ELAB PREL PHUM PGOV SOCI CVIS GTIP TC
SUBJECT: UAE AND OPIC -- PERFECT TOGETHER

REFS: ABU DHABI 4253 AND PREVIOUS

11. This is an action request; please see paragraph 3.

12. (SBU) Summary and comment: Post believes the time is ripe for a dialogue between the UAEG and OPIC about

reinstating OPIC programs in the UAE. The suspension of OPIC coverage has become an irritant in the UAE-U.S. Strategic Partnership; senior Emirati officials have raised the issue repeatedly during the last year. There are clear economic and commercial advantages to OPIC coverage for U.S. firms in the UAE: in the near term, it would improve the terms of financing for multi-billion dollar projects -- such as Dolphin Limited's plans to pipe Qatari natural gas to the UAE. In the longer term, OPIC coverage would encourage smaller American banks to increase their exposure in the UAE market, and result in increased investment here by small-to-medium size U.S. companies. The UAEG recognizes it must improve its record on workers rights, and indeed has taken "steps to adopt and implement internationally recognized worker rights." The UAEG has announced its commitment to enact legislation in 2004 creating a national labor union. As currently proposed, the union will not permit expatriates to join as full members but they will have access to it via their own representatives. End summary and comment.

¶13. Action Request: Post recommends that OPIC officials visit the UAE to discuss with the Embassy and the UAEG the steps the UAE needs to take to get back on coverage. As the Strategic Partnership is likely to take place in late February, Post suggests December or January as the ideal time for a visit. End action request.

A Strategic Partnership Issue

¶14. (U) The UAE was suspended from OPIC insurance programs in 1995 because of the UAEG's lack of compliance with internationally recognized worker rights standards. Since OPIC's suspension here, however, the UAE has ratified ILO Conventions 100 (February 1997) on Equal Remuneration, 105 (February 1997) on the Abolition of Forced Labor, 111 (June 2001) on Discrimination, 138 (October 1998) on Minimum Age, 182 (June 2001) on the Worst Forms of Child Labor, and 81 (April 2003) on Labor Inspections. The UAEG also has implemented ILO bio-hazard rules on occupational health and safety. Although the UAEG has taken ILO Conventions on the rights to association and collective bargaining under consideration, it has not yet ratified them.

¶15. (SBU) The UAEG requested a discussion on OPIC coverage for the UAE as part of the first U.S.-UAE Strategic Dialogue in November 2002. UAE Deputy Prime Minister and de facto Foreign Minister Sheikh Hamdan bin Zayid Al-Nahyan and de facto Finance Minister Dr. Muhammad Khalfan bin Khirbush have reiterated the UAEG's commitment to reinstating OPIC coverage in subsequent meetings with the Ambassador. Throughout the year, UAE officials in the Ministries of Finance, Economy, and Foreign Affairs continually have stressed the interest of their government in OPIC coverage, and asked for information about reinstatement. Post's Economic Section has forwarded information on OPIC requirements and Arabic-language copies of ILO Conventions.

Good For U.S. Business

¶16. (SBU) UAE officials are aware of the obvious economic and commercial advantages OPIC programs would provide U.S. companies here. U.S. firm Occidental Petroleum's local representative (please protect) told Econoff recently that OPIC coverage in the UAE and Qatar would significantly improve the terms of financing for the USD \$2.5 billion Dolphin project to pipe natural gas from Qatar to the UAE. (Note: Oxy has a 25 percent equity stake in the Dolphin Project. End note.) Whether or not OPIC is able to offer the best financing terms to Dolphin, OPIC's mere presence among the pool of prospective lenders would provide a larger number of financing options. The Oxy oil executive noted that political risk insurance is not necessary in the

UAE, but external lenders with limited exposure in the Middle East would feel more comfortable financing a project in the UAE with OPIC insurance. Indeed, Dolphin recently filed a formal petition with OPIC to consider reinstatement of its programs, and is prepared to lead a concerted effort of U.S. companies to lobby for OPIC in the UAE and Qatar.

¶17. (SBU) OPIC coverage also would level the playing field in the UAE for U.S. firms, which currently stand at a distinct disadvantage to their Asian and European competitors. The Japan Bank for International Cooperation (JBIC) and French equivalent COFACE both have active risk insurance programs in the UAE. Many more Japanese and French companies therefore can invest in smaller projects in the UAE than U.S. firms because they tie those investments to their national insurance programs. OPIC coverage in the UAE would particularly benefit small-to-medium size American companies that either are leery of sinking significant investment into the UAE market or are unable to attract interest from many international lenders.

¶18. (SBU) The local representative for Bank of New York in Abu Dhabi (please protect) also mentioned that international banks, particularly "bankers' banks" that do not participate in direct financing, would welcome OPIC political risk insurance in the UAE. Political risk insurance would entice smaller American banks to increase their exposure in the Middle East and provide a larger customer base for banks like the Bank of New York, which extend loans primarily to other financial institutions.

Significant Improvement In Labor Rights

¶19. (U) Since OPIC coverage was suspended in the UAE, the Emiratis have improved appreciably the rights of expatriate laborers. Approximately 80 percent of the population of the UAE is expatriate, and 98 percent of the private work force is non-Emirati. UAE officials freely acknowledge that the vast skilled and unskilled expatriate labor force is a primary cause for the phenomenal economic development of the country since its creation 30 years ago. They also argue, however, that being a minority in their own country carries substantial national security risks. Emirati officials are apprehensive about empowering the more than 2 million expatriate workers in the UAE with the right to strike or rally en masse against employers. Expatriate workers, especially those in low-skill sectors, continue to suffer discrimination in the labor market. The UAEG nevertheless has committed to enacting and implementing domestic laws that conform to international principles.

¶10. (U) In addition to implementing international conventions (see paragraph 2 for the complete list), the UAEG continues to reform its domestic labor laws to better protect workers. For example, the UAE Ministry of Labor implemented new regulations this year requiring all construction and maintenance companies and businesses with more than 200 employees, to submit audited reports confirming the payment of salaries to employees. The Ministry blacklists companies (suspends the company's commercial license) that fail to submit these reports on a quarterly basis. In addition, the Federal Supreme Court this year outlawed a common practice in the UAE of local sponsors holding the passports of employees. Following the Court decision, UAEG Ministries publicly noted the ruling and declared their intention to take the necessary measures to enforce it.

¶11. (U) Currently, UAE law neither authorizes nor prohibits workers from forming or joining unions. On the horizon, however, lies an important legislative breakthrough -- a law expressly authorizing the creation of a national labor union. As proposed, the union will not permit expatriates to join as full members but they will have access via their own representatives. Both the Minister of Labor Matar Humaid Al-Tayir and the

Undersecretary of Labor Dr. Khaled Al-Khazraji have made public pronouncements that the UAEG is moving forward with this legislation. Al-Khazraji noted earlier this year that, "Through this union, expatriate workers can carry out their activities through their own committees and groups covering each profession and area."

¶12. (U) The UAEG does allow workers to associate freely for the advancement of common goals and interests. Workers address grievances and negotiate disputes or matters of interest, however, with employers through numerous formal and informal mechanisms. Though workers are not allowed to engage in collective bargaining, they are authorized collective work dispute resolution. In addition, private sector workers have engaged in numerous strikes. The UAEG has acknowledged explicitly that workers have the right to strike. Dr. Al-Khazraji publicly stated earlier this year, "The UAE labor law has not forbidden strikes... Laborers have rights and if they are denied them, they can stop working." Thus, in practice, the UAEG fosters an environment that is generally permissive, and workers are allowed to express their grievances without fear of reprisal.

¶13. (U) Foreign labor attaches also have confirmed to Econoff that most labor disputes in the UAE between expatriates and Emirati employers are resolved informally, sometimes with the assistance of the various embassies. When informal processes fail, the embassies encourage workers to seek reparation through formal government channels, and submit their claims to the UAE Ministry of Labor for dispute resolution. According to the foreign labor attaches, existing formal and informal mechanisms result in the settlement of most labor disputes.

¶14. (U) The UAEG has taken substantial "steps to adopt and implement internationally recognized worker rights" -- both in legal and practical terms. This progress and growing business interest in OPIC coverage, make this the right time for senior OPIC officials to visit the UAE to consult with the mission and the UAEG on how to advance our common agenda further.

Albright